

# EXHIBIT C

IN THE CIRCUIT COURT OF JEFFERSON COUNTY, ALABAMA

THE BANK OF NEW YORK MELLON, )  
)  
Plaintiff, )  
)  
v. ) CV: 2009-2318  
)  
JEFFERSON COUNTY, ALABAMA, *et al.*, )  
)  
Defendants. )

ANNE-MARIE ADAMS  
Clerk

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RECEIVER'S FIRST INTERIM REPORT  
ON FINANCES, OPERATIONS, AND RATES OF  
THE JEFFERSON COUNTY SEWER SYSTEM

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## TABLE OF CONTENTS

<b>I.</b>	<b>INTRODUCTION.....</b>	<b>1</b>
<b>II.</b>	<b>BACKGROUND. ....</b>	<b>3</b>
A.	DESCRIPTION OF THE JEFFERSON COUNTY SEWER SYSTEM.....	3
B.	HISTORY OF THE SYSTEM.....	5
1.	<i>Early Beginnings 1901-1910: Divided Responsibilities and Inadequate Hookup Enforcement Hinder the Effectiveness of the New Sewer System. ....</i>	<i>5</i>
2.	<i>The First Years of Operation 1901-1947: State Approved Project-Based Bond Issuances Provide Inadequate Funding to Keep Pace with Growth. ....</i>	<i>8</i>
3.	<i>The Local Era 1950-1965: The County Gains Financing Autonomy from the State but Fails to Use its New Bond and Ratemaking Power to Adequately Fund the System. ....</i>	<i>10</i>
4.	<i>The Federal Era 1965-1995: Despite Moratoriums, Litigation and Increased Pressure from State and Federal Regulators, the County's Failure to Provide Adequate Funding to the System Continues. ....</i>	<i>12</i>
C.	THE CONSENT DECREE. ....	15
1.	<i>Construction to Comply with the Consent Decree. ....</i>	<i>16</i>
2.	<i>System Financing to Comply with the Consent Decree. ....</i>	<i>18</i>
D.	CRIMINAL ACTIVITY.....	23
E.	SYSTEM RATE HISTORY SINCE 1997.....	24
F.	THE CRASH OF THE SYSTEM'S FINANCES AND THE COUNTY'S RESPONSE.....	28
G.	RESULTING LITIGATION AND APPOINTMENT OF RECEIVER.....	28
<b>III.</b>	<b>OVERVIEW OF ACTIONS TAKEN BY RECEIVER SINCE APPOINTMENT.....</b>	<b>30</b>
A.	OPERATIONS AND MAINTENANCE BUDGETING AND REVIEW PROCESS. ....	31
1.	<i>Personnel Plan.....</i>	<i>31</i>
2.	<i>Review and Validation of the Accuracy of Billing and Collection Practices. ....</i>	<i>33</i>
3.	<i>Improving Customer Billing and Collection Practices. ....</i>	<i>34</i>
4.	<i>Fleet Management Procurement. ....</i>	<i>35</i>
5.	<i>Legal Expenses.....</i>	<i>36</i>
6.	<i>Review of Utility Expenses. ....</i>	<i>36</i>
7.	<i>Maintenance Management Practices. ....</i>	<i>36</i>
8.	<i>Capitalized Labor.....</i>	<i>37</i>

9.	<i>Allocated Costs from the County</i> .....	37
B.	CAPITAL IMPROVEMENT PLAN.....	38
C.	THE RECEIVER’S EFFORTS TO WORK TOWARDS A NEGOTIATED SOLUTION TO THE SEWER SYSTEM CRISIS.....	41
IV.	<b>THE RECEIVER’S INTERIM FINDINGS.</b> .....	45
A.	PAST RATE INCREASES WERE INSUFFICIENT TO ADEQUATELY FUND THE SYSTEM.....	45
B.	THE SYSTEM’S REVENUES ARE DECLINING.....	46
1.	<i>The Demand Study Results: Both Customer Numbers and Average Usage are Declining, Resulting in Declining Rate Revenues.</i> .....	46
2.	<i>Non-Rate System Revenues Will Not Increase.</i> .....	52
C.	THE SYSTEM’S FUTURE DEBT SERVICE COSTS ARE UNKNOWN. ....	53
V.	<b>THE PLANNED INTERIM RATE INCREASE.</b> .....	55
A.	THE 25% REVENUE INCREASE IS LESS THAN THE 32% INCREASE THAT WOULD HAVE BEEN REQUIRED UNDER THE LOOKBACK ANALYSIS ASSUMING THE COUNTY HAD FINANCED ALL DEBT WITH FIXED RATE FINANCING. ....	56
B.	SYSTEM USER CHARGES HAVE NOT BEEN INCREASED SINCE JANUARY 2008 AND THE 25% REVENUE INCREASE IS AN APPROPRIATE MAKE-UP FOR NOT HAVING INCREASED RATES OVER THE PAST FEW YEARS. ....	58
C.	THE 25% REVENUE INCREASE WILL NOT CAUSE SIGNIFICANT RATE SHOCK AS COMPARED WITH RATE INCREASES IMPOSED BY OTHER UTILITIES WITHIN THE LAST FEW YEARS.....	59
D.	THE 25% REVENUE INCREASE MEETS THE LEGAL REQUIREMENT OF REASONABLENESS AND IS WITHIN THE RANGE OF ACCEPTABLE FINANCIAL IMPACT ANALYSIS. ....	62
1.	<i>The Interim Rate Increase is Reasonable Under Alabama Law</i> .....	62
2.	<i>According to the EPA Financial Impact Guidelines, the Rate Increase Will Not Have a High Financial Impact on Residential Customers.</i> .....	63
E.	BASED ON THE CITI MODELS, THE 25% REVENUE INCREASE IS COMPATIBLE WITH A VARIETY OF POSSIBLE SOLUTIONS.....	65
VI.	<b>DESCRIPTION OF THE NEW RATES: THE B&amp;V SEWER COST ALLOCATION AND RATE STUDY.</b> .....	66
A.	EXISTING RATE STRUCTURE.....	67
B.	NEW RATE STRUCTURE. ....	69
C.	IMPLEMENTATION OF INTERIM RATE INCREASE. ....	71
VII.	<b>IMPLEMENTATION OF A LOW-INCOME ASSISTANCE PROGRAM</b> .....	71
A.	PROGRAM ELIGIBILITY. ....	71
B.	PROGRAM OVERVIEW.....	72

C.	PROGRAM FUNDING AND INTERIM IMPLEMENTATION. ....	72
<b>VIII.</b>	<b>NON-RATE RECOMMENDATIONS AND OPTIONS FOR A PERMANENT SOLUTION.....</b>	<b>74</b>
A.	EXPLORE ADDITIONAL REVENUE SOURCES OTHER THAN RATES. ....	74
B.	ENSURE THAT THE SYSTEM HAS THE CLEAR AUTHORITY TO ENFORCE MANDATORY HOOKUP TO THE SYSTEM. ....	76
C.	AN INDEPENDENT PUBLIC CORPORATION SHOULD BE CREATED TO TAKE OVER OPERATION AND MAINTENANCE OF THE JEFFERSON COUNTY SEWER SYSTEM.....	77
<b>IX.</b>	<b>CONCLUSION.....</b>	<b>77</b>

## LIST OF TABLES

TABLE 1 - SUMMARY OF WARRANTS ISSUED PURSUANT TO THE INDENTURE.....	20
TABLE 2 - SUMMARY OF RATE INCREASES FROM 1997 TO PRESENT.....	25
TABLE 3 - RECOMMENDED RATE INCREASES AND COUNTY RESPONSE FROM 2002 TO PRESENT .....	26
TABLE 4 - SUMMARY OF RESULTS OF CITI SCENARIOS .....	43
TABLE 5 - REVENUE REQUIREMENTS ASSUMING REFINANCING OF \$3.158 BILLION AT CURRENT FIXED MARKET RATES .....	54
TABLE 6 - LOOKBACK ANALYSIS: REVENUE REQUIREMENTS ASSUMING ALL FIXED RATE FINANCING .....	57
TABLE 7 - CITI SCENARIO RESULTS .....	66
TABLE 8 - EXISTING MONTHLY MINIMUM CHARGES.....	67
TABLE 9 - EXISTING VOLUMETRIC CHARGES (\$/CCF) .....	68
TABLE 10 - EXISTING MISCELLANEOUS CHARGES (\$/1,000 GAL.) .....	68
TABLE 11 - EXISTING EXTRA STRENGTH CHARGES .....	68
TABLE 12 – IMMEDIATE CONVERSION TO COST OF SERVICE.....	69
TABLE 13 - NEW MONTHLY SERVICE CHARGE.....	69
TABLE 14 - NEW VOLUMETRIC CHARGES.....	70
TABLE 15 - NEW SURCHARGE RATES .....	70
TABLE 16 - COST OF SERVICE ALLOCATION UNDER NEW RATES.....	70

## LIST OF FIGURES

FIGURE 1 - MAP OF SYSTEM SERVICE AREA .....	4
FIGURE 2 - BREAKDOWN OF \$3.223 BILLION IN COUNTY SEWER WARRANTS .....	22
FIGURE 3 - TOTAL SEWER ACCOUNTS 2001-2010.....	47
FIGURE 4 - HISTORIC SYSTEM DEMAND.....	48
FIGURE 5 - USAGE PER ACCOUNT 2006-2010.....	49
FIGURE 6 - BASE SCENARIO RESIDENTIAL CUSTOMER PROJECTIONS.....	50
FIGURE 7 - SEWER ACCOUNT PROJECTIONS .....	51
FIGURE 8 - SUMMARY OF WATER DEMAND PROJECTIONS.....	52
FIGURE 9 - RATE INCREASE COMPARISON BY PERCENTAGE .....	60
FIGURE 10 - RATE INCREASE COMPARISON BY DOLLARS .....	61
FIGURE 11 - COMPARISON OF AVERAGE RESIDENTIAL BILL IN ATLANTA AND JEFFERSON COUNTY .....	62

## APPENDIX

A-1.

System Map with Basins

A-2.

PARCA Report, "A History of the Jefferson County Sewer System" (2001)

A-3.

Ala. Act No. 714 (1901)

A-4.

Ala. Act No. 716 (1901)

A-5.

Ala. Const. amend 73

A-6.

1996 Consent Decree

A-7.

2003 BE&K Report

A-8.

Validation Order in *Jefferson County, Alabama v. The Taxpayers* (2001)

A-9.

*The Birmingham News*, "How Jefferson County's Debt Ballooned" (July 10, 2010)

A-10

*The Birmingham News*, "Jefferson County Sewer Scandal  
Barry White Sentenced to 10 Years in Prison for Bribes"  
(July 30, 2010 updated August 10, 2010)

A-11

Table Summarizing County Response to Rate Recommendations from 1901-Present

A-12.

Special Masters Report (February 2009)

A-13.

Federal Opinion (June 12, 2009)

A-14.

Summary of ESD O&M Plan

A-15.

American Water Report on Operations



A-16.

ESD Capital Improvement Plan

A-17.

Citi Summary of Scenario Results

A-18.

American Water Demand Study

A-19.

B&V Lookback Analysis Report

A-20.

2010 NACWA Service Charge Index

A-21.

Industrial Economics Report

A-22.

B&V Cost Allocation Study

A-23.

Dollar Energy Report

A-24.

June 3, 2009 Letter from County to SEC

A-25.

Receiver Letter Regarding \$50 million

## I. Introduction.

On September 22, 2010, this Court entered its Order (the “Receiver Order”) appointing John S. Young Jr., LLC (the “Receiver”), to serve as Receiver for the Jefferson County Sewer System (the “System,” as defined in the Receiver Order). The Receiver was appointed amidst and as a result of the County’s default on its obligations under the Trust Indenture and Supplemental Indentures entered into between 1997 and 2003 (the “Indenture”). This Court found that the County had “failed to operate the Sewer System in an economical, efficient and proper manner, and the public interest and the ends of justice will be best served by the appointment of a receiver.”<sup>1</sup>

The Receiver’s duty is to “effectively administer, operate, and protect the System.”<sup>2</sup> As such, the Receiver is not the representative or advocate of the County or its various creditor groups, but is instead an independent entity charged with the obligation to serve the interests of the System, the public, and this Court. Towards this end, this Court has bestowed upon the Receiver the full right and authority to perform any act the Receiver, in its independent business judgment, reasonably believes ought to be done or performed for the efficient administration, operation, and protection of the System.<sup>3</sup>

Among the specific powers granted the Receiver by the Court is the sole “power to fix and charge rates and to collect revenues sufficient to provide for the payment” of all System obligations and the expenses of operating and maintaining the System.<sup>4</sup> The Court’s goal in appointing the Receiver was to “stabilize the System finances and . . . implement significant operational improvements and efficiencies that will generate more System Revenues and more Net Revenues Available for Debt Service than [the County has] previously produced.”<sup>5</sup> The Court has granted the Receiver full power and authority to administer and operate the System, in a manner consistent with state and federal law.<sup>6</sup>

Prior to appointment of the Receiver, John S. Young, Jr. (the sole member and chief executive officer of the Receiver), served as one of two special masters appointed in connection with federal court litigation<sup>7</sup> arising out of the County’s default under the Indenture. The February 10, 2009 Report of the Special Masters (the “Special Masters Report”), filed with the federal court, provided an evaluation of the legal, economic, business, infrastructure, and capital improvement issues facing the System. Since being appointed, the Receiver has devoted significant time to expanding and revising the analysis and research contained in the Special Masters Report in order to formulate both interim and long term operational and financial strategies for the System.

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<sup>1</sup> Receiver Order at 6, ¶ 17.

<sup>2</sup> *Id.* at 8, ¶ 1.

<sup>3</sup> *Id.* at 8, ¶ 3.

<sup>4</sup> *Id.*

<sup>5</sup> *Id.* at 6, ¶ 18.

<sup>6</sup> *Id.* at 8, ¶ 2.

<sup>7</sup> *Bank of New York Mellon, et al. v. Jefferson County, Alabama*, United States District Court for the Northern District of Alabama, Civil Action No. CV-08-P-1703-RDP (herein, the “Federal Action”).

**All of the Receiver's actions are guided by a single overriding goal: the establishment of a viable, sustainable, efficient utility serving the needs of the public.** The Receiver has developed short, medium and long-range business plans for the System designed to accomplish this goal. A foundational requirement for any solid business plan is the need to generate sufficient revenues to pay the costs of operations, maintenance, and capital investment and to meet the financial obligations of the business. Towards that end, the Receiver has analyzed the revenues currently generated by the System.

However, before considering the need for any additional revenue increases, the Receiver undertook a comprehensive review of the internal operations of the Jefferson County Environmental Services Department (the "ESD"),<sup>8</sup> both to determine where additional efficiencies could be achieved, and to identify areas where additional actions may be needed for proper financial, administrative, and operational performance consistent with industry best practices. Following this comprehensive operational review, the Receiver created and implemented plans to achieve the desired efficiencies and best practices.

The Receiver also directed and oversaw the preparation of long term operations and maintenance and capital investment plans and budgets to assess the level of future revenues that will be required to meet the System's obligations. The Receiver has also devoted significant time to working with the County and its various creditors groups in analyzing potential solutions to the System's debt crisis.

This interim report is intended to provide a working background of the System and the events that led to the debt crisis and the Receiver's appointment, update the Court and the public on the Receiver's activities since appointment, and outline the Receiver's interim and long term future plans for the System. This report is organized as follows:

- **Section II** provides important context for the information within this report by summarizing the history of the System, the factual and legal background leading up to the County's default, the System's current debt crisis, and the Receiver's appointment.
- **Section III** provides an overview of the Receiver's activities since appointment.
- **Section IV** contains the Receiver's interim findings as to the System's current and future revenues and expenses.
- **Section V** describes the Receiver's planned interim rate increase.
- **Section VI** contains a description of the new rate structure introduced as part of the interim rate increase.
- **Section VII** contains a description of the low-income assistance plan the Receiver intends to implement.

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<sup>8</sup> The ESD is the County department charged with operation and maintenance of the System. However, the ESD is not a separate legal entity apart from the County.

- **Section VIII** contains the Receiver's long term recommendations and a discussion of suggestions and options for a permanent solution to the current debt crisis and problems now facing the System.

## **II. Background.**

### **A. Description of the Jefferson County Sewer System.**

When the Jefferson County Sewer System was first established in 1901, it originally served only a small area in the core of the City of Birmingham. Since that time, the System has expanded to serve most of the metropolitan Birmingham area and several surrounding suburbs. The County's wastewater collection and treatment system is currently comprised of approximately 3,137 miles of sanitary sewer lines, 174 pump stations, an estimated 80,196 manholes, and nine wastewater treatment plants. The System serves approximately 478,000 people (through approximately 144,000 active accounts) in twenty-three different municipalities located in Jefferson County, unincorporated Jefferson County, and small areas of Shelby and St. Clair Counties. The approximate System service area is shown on the map below: